

KENTUCKY ECONOMIC INDICATORS

May 2008 as of July 24, 2008

KY Composite Index of Leading Indicators increased by 1.0 percent in May.

- The Leading Index has increased for the third time in 2008.
- Year-over-year the index declined for the sixth consecutive month with 1.4 percent.
- The component indicators were mixed but mostly positive. Three positive, 1 negative and one unchanged.
 - + KY Labor Intensity Index increased 0.2 percent.
 - + KY Index of Initial UI Claims increased by 5.7 percent.
 - + US Retail Sales increased by 10.4 percent.
 - US Manufacturer's New Orders Index decreased by 18.4 percent.
 - o The Louisville Help Wanted Index remained unchanged at 15.

Component weights for May are 69.0, 13.0, 11.9, 4.9 and 1.2 respectively.

KY Composite Index of Coincident Indicators decreased by 0.7 percent in May.

- The Coincident Index growth is negative for the second consecutive month.
- Year-over-year growth is positive for the fifty-eighth consecutive month at 0.5 percent.
- Component indicators leaned negative, 1:2.
 - + KY Non-farm Employment increased 0.4 percent.
 - US Industrial Production Index decreased 2.5 percent.
 - US Personal Income Less Transfers decreased 0.3 percent.

Component weights for May are 37.7, 31.3 and 18.4 respectively. Component weights do not sum to one because the two US components were discounted to give the Kentucky component more weight.

The Kentucky Index of Leading Indicators increased by 1.0 percent for May 2008. The key Kentucky index has changed signs for the last nine consecutive months. The last occurrence of three consecutive months of same-sign growth is still the three negative months between June 2007 and August 2007. The index is currently at 111.8, which is down 1.4 percent over May 2007. The Kentucky Coincident Index has now been negative for three of the last four months. The softening of the Coincident Index suggests that the turning point is near or upon us.

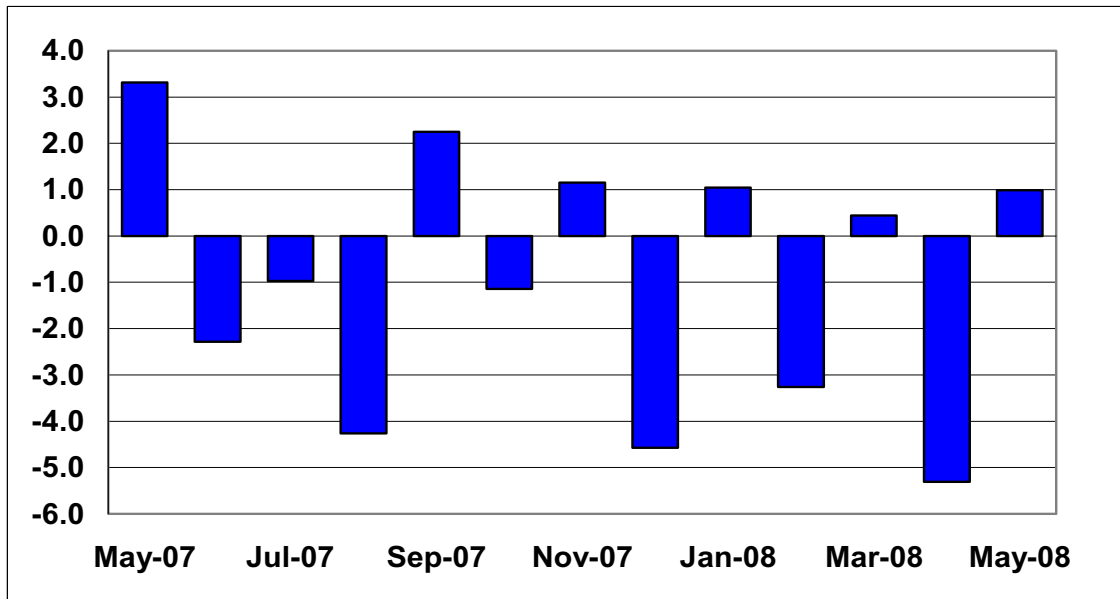
The Kentucky Labor Intensity Index was trivially positive with 0.2 percent growth. This index has failed to establish a clear positive or negative trend since the second to last turning point in early 2004. The Kentucky Index of Initial Unemployment Insurance Claims was positive for the first time in four months with 5.7 percent growth. The Kentucky sub-component greatly outweighed the US sub-component. Kentucky First Payments declined by 1,846 persons, a 15.7 percent reduction, while US Initial Claims increased by 1,500 persons, a 0.5 percent rise. Overall, the index is down 2.4 percent over May 2007. The US manufacturing new orders index experienced its fifth consecutive decline, falling at a rate of 18.4 percent in May. Overall, the series is down 6.8 percent over May 2007. Meanwhile, US Retail Sales continue to do well in spite of the high energy prices and weak employment. US Retail Sales grew by a solid 10.4 percent. The Louisville Help Wanted Index remained unchanged at its all-time low level of 15.

Kentucky non-farm employment has been weak for the first five months of 2008. Employment has fallen by 2,400 net jobs since January 2008. At the same time, non-farm employment has risen slightly compared to last May; employment is up by 0.4 percent. The average January-to-December non-farm employment growth since 1978 is 2.8 percent. So by any standard, non-farm employment growth has been weak.

Kentucky manufacturing employment has been in an extended period of variable decline for several years. Employment fell sharply after the 2001 recession and never found a true bottom. Between May 2000 and April 2003, Kentucky manufacturing employment fell from 312,100 jobs to 264,600 jobs, a net loss of 47,500 jobs that were never recovered during the following business cycle expansion period. There was a long period of stagnation from 2003 through 2005. Between April 2003 and May 2008, an additional 12,800 net jobs were lost in this aggregate sector, where the great majority of those 12,800 job losses occurred between March 2006 and the present. For the last two years, manufacturing employment has been trending downwards at an increasing rate. May's strong performance caps a five-month period of deceptively high growth when compared to the trend over the last several years. Manufacturing employment is up 1,200 jobs from January to May 2008, but it is down by 6,000 net jobs (-2.3 percent) since May 2007. GOEA will continue to closely monitor this important series to see if the growth in calendar year 2008 will be sustainable.

Overall, non-farm employment is growing less than half a percent for the last year. At least some of those manufacturing sector employees are moving to the services sectors. Following four months of declines, Kentucky private services employment is showing some growth over May 2007. Private services employment is up 2,900 jobs since last May. Services, a much larger aggregate sector than manufacturing, experienced strong growth throughout the expansion period following the 2001 recession. From December 2001 to January 2008, Kentucky private services employment grew from 1,082,900 jobs to 1,195,200 jobs, an increase of 112,300 net jobs. Most of that growth is due to changes in labor force composition and size, but some portion is due to shifts from manufacturing to services. Since January 2008 services employment has declined sharply. As the economy softens and fuel prices continue to erode disposable income, employment in the services sector may experience some weakness, especially in those services related to luxury goods.

Our indices are compiled and published on a monthly basis, roughly two weeks following the Conference Board release of the U.S. Leading Index. A complete description of the Index of Leading Indicators and methodology was published in the University of Kentucky Center for Business and Economic Research *Kentucky Annual Economic Report, 2000*.



About the Indicators

Kentucky Reference Series

Inflation-adjusted personal income less transfer payments and policy-adjusted general fund tax receipts are combined to form the GOEA composite reference series.

Kentucky Leading Indicators

- **KY Labor Intensity Index:** Composed of seasonally adjusted weekly hours multiplied by employment for the following manufacturing industries: Lumber products; chemical and allied products; petroleum, coal, rubber and plastic products; fabricated metals and transportation equipment.
- **KY Initial Unemployment Insurance (UI) Claims Index:** This index has two components: Kentucky claims in their first month of payment and total U.S. initial claims. Additional claims for UI are the subset of initial claims filed by workers who have previously filed UI claims but are currently filing new claims with intermittent workforce attachment since their original claim. The claims in their first month of payment without intermittent qualified experience performed better in the testing process and were chosen accordingly. This is an inverted index. That is, when either component goes down, ceteris paribus, then the index value goes up. Likewise if either component goes up, then the index value goes down.
- **U.S. Retail Sales:** During turning points in the Kentucky economy, U.S. Retail Sales was not strictly concave or convex to the origin. For this reason inflexion points were used to test turning points in the U.S. Retail Sales series. U.S. Manufacturing and Trade Sales performed better than U.S. Retail Sales in testing, but because U.S. Manufacturing and Trade Sales was not published in a timely manner it had to be removed from the Kentucky Leading Index.
- **U.S. Manufacturer's New Orders Index:** This index has two components: US Manufacturer's New Orders for Nondefense Capital Goods and US Manufacturer's New Orders for Consumer Goods and Materials. Separately these two series slightly missed one or two turning points in the official reference series. But together they preceded each turning point.
- **Louisville Help-Wanted Index:** The Conference Board computes an index of help-wanted advertisements for major regions across the United States; Louisville is the only city in Kentucky covered by the Conference Board.

Table Notes:

- 1) Growth rates are computed with precise numbers. Due to rounding, two observations may have the same reported value but still exhibit growth at a more precise level.
- 2) More information is available on our website, www.osbd.ky.gov

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SELECTED KENTUCKY ECONOMIC INDICATORS
SEASONALLY ADJUSTED

	2007						2008						
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY
KY Leading Index (1992=100)	113.3	113.1	113.0	112.6	112.8	112.7	112.8	112.4	112.5	112.1	112.2	111.7	111.8
% Chg Previous Month SAAR	3.3	-2.3	-1.0	-4.3	2.3	-1.1	1.2	-4.6	1.0	-3.3	0.4	-5.3	1.0
% Chg Same Month Last Year	0.3	-0.1	0.1	-0.1	-0.1	0.0	0.1	-0.9	-0.4	-0.6	-1.1	-1.2	-1.4
KY Leading Index Diffusion Index	73.3	63.3	63.3	60.0	63.3	63.3	60.0	60.0	63.3	60.0	56.7	56.7	56.7
KY Coincident Index (1992=100)	135.7	136.0	136.3	136.4	136.6	136.6	136.9	137.0	137.0	136.8	136.9	136.5	136.4
% Chg Previous Month SAAR	1.3	2.6	2.5	0.6	2.0	0.0	2.2	1.0	0.5	-1.5	0.4	-3.2	-0.7
% Chg Same Month Last Year	1.7	1.6	1.9	1.8	1.9	1.7	1.8	1.4	1.6	1.2	1.1	0.7	0.5
KY Non-farm Employment (000s)	1,869.1	1,871.1	1,869.3	1,868.4	1,870.8	1,874.5	1,877.9	1,880.0	1,881.5	1,880.5	1,881.6	1,878.5	1,879.1
% Chg Previous Month SAAR	3.9	1.3	-1.1	-0.6	1.6	2.4	2.2	1.4	1.0	-0.6	0.7	-2.0	0.4
% Chg Same Month Last Year	1.3	1.4	1.5	1.1	1.2	1.5	1.5	1.0	1.2	1.2	1.0	0.8	0.5
KY Private Services Employment (000s)	1,182.3	1,182.5	1,181.6	1,181.9	1,180.7	1,185.6	1,187.0	1,188.9	1,195.2	1,194.4	1,191.8	1,189.9	1,185.2
% Chg Previous Month SAAR	5.9	0.3	-1.0	0.4	-1.3	5.1	1.5	1.9	6.5	-0.8	-2.6	-1.9	-4.6
% Chg Same Month Last Year	1.9	1.8	1.9	1.9	1.6	1.7	1.5	1.2	1.6	1.7	1.1	1.1	0.3
KY Mfg Employment (000s)	257.8	258.3	256.3	252.8	254.8	253.9	253.1	250.7	250.6	250.4	253.3	250.7	251.8
% Chg Previous Month SAAR	-0.5	2.4	-8.9	-15.2	9.9	-4.2	-3.7	-10.8	-0.5	-1.0	14.8	-11.6	5.4
% Chg Same Month Last Year	-1.5	-1.4	-1.3	-3.4	-2.3	-0.9	-0.9	-3.3	-3.2	-3.3	-0.8	-2.8	-2.3
KY Unemployment Rate (%)	5.6	5.5	5.5	5.5	5.4	5.4	5.1	5.3	5.2	5.3	5.7	5.6	6.2
KY Index of Initial UI Claims (1992=100)	103.9	103.7	104.1	103.4	103.8	101.4	102.9	101.3	102.9	102.2	101.0	100.9	101.3
% Chg Previous Month SAAR	8.6	-2.1	4.4	-7.0	4.6	-24.8	20.1	-17.0	20.3	-8.2	-12.9	-1.9	5.7
% Chg Same Month Last Year	0.9	-0.2	0.6	1.0	1.1	-1.7	0.2	-2.1	-0.7	-0.5	-2.7	-2.2	-2.4
KY Labor Intensity Index (1992=100)	104.9	104.9	104.8	104.6	104.7	105.0	105.0	104.7	104.7	104.7	104.7	104.6	104.6
% Chg Previous Month SAAR	0.9	0.1	-0.9	-2.0	0.7	3.5	0.1	-3.5	0.5	-0.7	0.3	-1.3	0.2
% Chg Same Month Last Year	0.0	-0.1	-0.1	-0.2	-0.2	0.4	0.5	-0.1	0.0	-0.1	0.1	-0.2	-0.3
Louisville HWI (1992=100)	30.0	28.0	23.0	22.0	23.0	23.0	19.0	20.0	19.0	18.0	20.0	15.0	15.0
% Chg Previous Month SAAR	50.2	-56.3	-90.6	-41.3	70.5	0.0	-89.9	85.1	-46.0	-47.7	254.1	-96.8	0.0
% Chg Same Month Last Year	-14.3	-24.3	-32.4	-31.3	-34.3	-36.1	-50.0	-52.4	-45.7	-41.9	-53.5	-48.3	-50.0
GF Total Tax Receipts (\$ mill)	784.7	788.6	608.6	566.5	822.3	639.4	624.7	822.3	724.3	564.7	610.5	922.7	610.3
% Chg Same Month Last Year	11.3	-2.5	5.2	2.4	-1.5	1.5	-1.0	-6.7	6.1	3.8	-6.5	37.3	-22.2
GF Sales & Use Receipts (\$ mill)	270.9	243.0	251.0	241.8	235.5	246.7	236.1	235.2	296.7	205.5	209.6	232.4	238.4
% Chg Same Month Last Year	15.1	5.3	0.7	4.9	5.1	1.7	5.5	-1.5	3.7	6.2	-1.4	14.8	-12.0
GF Income Tax Receipts (\$ mill)	337.8	289.0	249.2	240.6	332.9	265.6	236.9	295.4	272.7	235.0	193.6	544.3	261.6
% Chg Same Month Last Year	58.6	11.4	9.0	5.8	18.1	6.9	-2.3	9.7	34.9	3.5	-5.1	92.1	-22.6

SELECTED U.S. ECONOMIC INDICATORS SEASONALLY ADJUSTED

	2007												2008				
	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY				
US Leading Index (2004=100)	104.0	103.9	104.6	103.6	103.7	103.2	102.8	102.6	102.1	101.9	101.9	102.0	101.8				
% Chg Previous Month SAAR	1.2	-1.1	8.4	-10.9	1.2	-5.6	-4.6	-2.3	-5.7	-2.3	0.0	1.2	-2.3				
% Chg Same Month Last Year	0.3	0.0	0.9	0.3	0.0	-0.7	-1.0	-1.7	-1.8	-1.7	-2.1	-1.8	-2.1				
US Coincident Index (1996=100)	106.5	106.6	106.9	107.1	107.2	107.3	107.2	107.2	107.2	106.9	106.9	106.9	106.8				
% Chg Previous Month SAAR	1.1	1.1	3.4	2.3	1.1	1.1	-1.1	0.0	0.0	-3.3	0.0	0.0	-1.1				
% Chg Same Month Last Year	1.8	1.7	1.9	1.9	1.9	1.6	1.5	1.1	1.2	0.8	0.6	0.5	0.3				
US Non-farm Employment (Mil.)	137.5	137.6	137.7	137.8	137.8	138.0	138.0	138.1	138.0	137.9	137.8	137.8	137.7				
% Chg Previous Month SAAR	1.4	0.9	0.5	0.6	0.7	1.2	0.5	0.4	-0.7	-0.7	-0.8	-0.6	-0.5				
% Chg Same Month Last Year	1.3	1.3	1.1	1.0	1.0	1.0	0.9	0.8	0.7	0.6	0.4	0.3	0.1				
US Service-Providing Employment (Mil.)	115.2	115.4	115.4	115.6	115.7	115.9	116.0	116.1	116.1	116.1	116.1	116.1	116.1				
% Chg Previous Month SAAR	2.0	1.2	0.9	1.5	1.2	1.9	1.2	1.2	-0.1	0.1	-0.1	0.4	-0.1				
% Chg Same Month Last Year	1.8	1.8	1.6	1.6	1.5	1.6	1.4	1.4	1.3	1.1	1.0	0.9	0.8				
US Manufacturing Employment (000s)	13,910.0	13,890.0	13,884.0	13,844.0	13,822.0	13,797.0	13,794.0	13,772.0	13,737.0	13,690.0	13,644.0	13,592.0	13,570.0				
% Chg Previous Month SAAR	-1.0	-1.7	-0.5	-3.4	-1.9	-2.1	-0.3	-1.9	-3.0	-4.0	-4.0	-4.5	-1.9				
% Chg Same Month Last Year	-2.0	-2.2	-2.1	-2.2	-2.2	-2.1	-1.9	-1.9	-2.0	-2.1	-2.2	-2.4	-2.4				
US Unemployment Rate (%)	4.5	4.6	4.7	4.7	4.7	4.8	4.7	5.0	4.9	4.8	5.1	5.0	5.5				
US Manufacturer's New Orders Index (1996=100)	130.8	130.9	134.5	130.2	129.5	129.7	129.4	130.4	126.8	125.9	125.5	123.9	121.8				
% Chg Previous Month SAAR	-16.8	0.9	38.0	-32.1	-6.3	2.2	-2.6	9.7	-28.9	-7.8	-4.0	-14.1	-18.4				
% Chg Same Month Last Year	-2.3	-2.4	2.0	-0.2	-3.8	-0.8	-1.5	-2.5	-1.1	-2.8	-4.8	-6.7	-6.8				
US Initial Claims for UI (000s)	308.5	318.5	308.6	325.3	318.4	330.0	340.1	344.6	339.2	346.0	374.8	367.3	369.0				
% Chg Previous Month SAAR	-38.6	46.6	-31.5	88.2	-22.7	53.6	43.6	17.1	-17.3	26.9	161.0	-21.5	5.7				
% Chg Same Month Last Year	-7.2	3.2	-2.4	2.7	-0.3	4.4	3.7	7.5	7.7	6.5	20.4	14.3	19.6				
US Industrial Production Index (1992=100)	111.0	111.4	112.0	112.0	112.3	111.8	112.3	112.4	112.6	112.2	112.2	111.4	111.2				
% Chg Previous Month SAAR	0.2	4.3	7.2	-0.3	3.1	-4.5	5.2	1.0	2.0	-4.3	0.7	-8.2	-2.5				
% Chg Same Month Last Year	1.5	1.4	1.7	1.6	2.2	1.9	2.5	2.0	2.5	1.5	1.6	0.4	0.2				
US Personal Income Less Trans. (Bil. 2000 chnd)	8,411.2	8,441.7	8,469.9	8,504.4	8,522.0	8,544.2	8,534.7	8,541.5	8,522.9	8,527.2	8,523.0	8,527.7	8,525.6				
% Chg Previous Month SAAR	-1.1	4.4	4.1	5.0	2.5	3.2	-1.3	1.0	-2.6	0.6	-0.6	0.7	-0.3				
% Chg Same Month Last Year	3.9	3.6	4.3	4.7	4.1	2.8	2.3	2.1	1.9	1.4	1.0	1.3	1.4				
CPI, All Urban (1982-84=100)	206.7	207.2	207.7	207.7	208.5	209.1	210.9	211.7	212.5	212.6	213.3	213.7	215.1				
% Chg Previous Month SAAR	5.7	3.2	2.7	0.2	4.5	3.2	11.3	4.4	4.8	0.3	4.2	2.5	8.1				
% Chg Same Month Last Year	2.7	2.6	2.4	1.9	2.8	3.5	4.4	4.1	4.4	4.1	4.0	3.9	4.1				
US Retail Sales (\$Billions)	376.2	372.9	373.6	374.3	376.8	376.8	381.3	377.9	380.0	378.1	380.0	380.8	383.9				
% Chg Previous Month SAAR	19.9	-10.1	2.4	2.3	8.3	-0.1	15.2	-10.1	6.9	-5.9	6.2	2.5	10.4				
% Chg Same Month Last Year	5.0	4.1	3.5	3.4	4.9	4.8	5.8	3.4	3.9	2.7	2.3	2.8	2.1				
US Consumer Expectations (1966=100)	77.6	74.7	81.5	73.7	74.1	70.1	66.2	65.6	68.1	62.4	60.1	53.3	51.1				
% Chg Previous Month AR	30.4	-36.7	184.5	-70.1	6.7	-48.6	-49.7	-10.4	56.6	-65.0	-36.3	-76.3	-39.7				
% Chg Same Month Last Year	13.8	3.8	12.4	8.4	-5.2	-17.3	-20.4	-19.2	-22.3	-23.4	-23.6	-29.8	-34.1				
Ave. Prime Interest Rate (% NSA)	8.25	8.25	8.25	8.25	8.03	7.74	7.50	7.33	6.98	6.00	5.66	5.24	5.00				